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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000401

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SUBJECT: AZERBAIJAN: APPARAT, MFA, SOCAR, TURKISH EMBASSY

CITE PROGRESS ON ERDOGAN VISIT, ENERGY ISSUES

REF: BAKU 392

Classified By: Political-Economic Section Chief Robert Garverick
for reasons 1.4 (b) and (d).

¶1. (C) Summary: The Turkish Embassy DCM confirmed May 14th that press reports on PM Erdogan's May 13-14 Baku visit, which characterized meetings as "very productive," were accurate. The PM's private message to Azerbaijan's leadership was the same as the public message -- that Turkey will not finalize the roadmap on reconciliation with Armenia unless Azerbaijan and Armenia come to terms on the occupied territories and Nagorno-Karabakh. The Foreign Minister echoed this sentiment, suggesting that Azerbaijan-Turkey relations had always been close, and that certain "noisy voices" were responsible for creating a temporary distraction. Presidential Foreign Affairs Advisor Novruz Mammadov suggested that Erdogan came to Baku with a favorable statement in pocket, but still conducted tough negotiations with President Aliyev. The Charge warned him that overly aggressive tactics aimed at Turkey could ultimately yield poor results; Mammadov promised to take that message to the President. SOCAR Vice President Nasirov also delivered positive news in the aftermath of the Erdogan visit, noting progress on Shah Deniz phase one natural gas pricing and SD phase two gas transit. New Turkish Energy Minister Yildiz, who accompanied Erdogan to Baku, had been much more constructive than former Energy Minister Guler, he said. End Summary

Turkish Embassy Confirms Press Reports

¶2. (C) Turkish Embassy Deputy Chief of Mission Erkan Ozoral told PolOff May 14 that Azerbaijani and Turkish press reports, which portrayed the May 13-14 visit to Baku of Turkish Prime Minister Erdogan as constructive and successful, were largely on track, and that both sides were pleased with the visit. Ozoral noted, however, that the meeting between President Aliyev and Erdogan had been one-on-one, and thus the readout he had received on that specific meeting was second hand. The Turkish DCM said that public statements on Nagorno-Karabakh, as expressed by the Turkish PM at a joint press conference with President Aliyev and during a speech at Azerbaijan's parliament, reflected what was said privately, i.e., that there will be no border

opening with Armenia until Armenia withdrawals from the occupied territories surrounding the Nagorno-Karabakh enclave.

¶3. (C) Ozoral, echoing the Prime Minister's message to the press yesterday, insisted that Erdogan's message on the occupied territories and the prospective border opening had been consistent. The Norwegian DCM, who was also present, noted that President Aliyev did not seem to think that this was the case recently in Brussels, where the President had addressed the North Atlantic Council. In that meeting, the Norwegian said, President Aliyev had had "sharp words" for the Turkish Ambassador. Ozoral said in response that he and his Ambassador in Baku had been trying to assure President Aliyev and other Azerbaijani leaders that differences did not exist. The meeting between the President and the Prime Minister allowed this discussion to take place directly. The Turkish DCM noted that Turkey's new Foreign Minister Davutoglu plans to visit Baku "within the next several weeks."

President's Foreign Affairs Advisor

¶4. (C) Charge d'Affaires met May 15 with Presidential Advisor Novruz Mammadov to discuss further Prime Minister Erdogan's visit to Azerbaijan. Mammadov assessed that initial differences between PM Erdogan and Turkish President Gul regarding the Turkish-Armenia roadmap came about because both leaders had to appease opposition forces within Turkey, and employed different tactics. Mammadov added that Erdogan's ultimate statement in Baku, which emphasized withdrawal from the occupied territories before the opening of borders, was

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the result of hard negotiation. He also thought, though, that Erdogan came to Azerbaijan with this sort of statement already prepared or he would not have come at all. The Charge reiterated that if the Azerbaijanis push the Turks so hard that the Turkey-Armenia reconciliation process collapses it would jeopardize U.S. efforts to move forward on a Karabakh resolution. Mammadov said he would deliver this message to the President and requested that it not be made public.

MFA: Shoring Up Unnecessary

¶5. (C) MFA First Deputy Minister Vaqif Sadiqov insisted May 14 that PM Erdogan's visit had been a success, and that relations with Turkey had always been good. Meeting with PD Officer and former White House Spokesperson Dana Perrino (visiting Baku on a State Department PD grant), Sadiqov said that there thus was no need to patch up the relationship. Unfortunately, "noisy voices" in the media and in parliament had created a distraction in recent weeks, giving the impression that the relationship had turned sour. In that sense, the May 13-14 visit was a good opportunity for President Aliyev and the Turkish PM to clear things up.

SOCAR: At Last, Progress

¶6. (C) Ozoral noted that the Turkish Minister of Energy met with SOCAR's President during the Erdogan visit, with progress made on natural gas transit. SOCAR's leadership, he said, would travel to Turkey next week for additional talks. Ozoral expected an agreement on gas transit to be signed early this summer.

¶7. (C) Separately, SOCAR Marketing Vice-President Elshad Nasirov told EnergyOff May 15 that Hilmi Guler's dismissal and the arrival of new GOT Energy Minister Taner Yildiz had resulted in "much progress" in bilateral energy negotiations. Although it was his impression there had not been much progress in Prague relating to the Nabucco summit, Nasirov said that it appeared now that ultimately Turkey would approve the Nabucco IGA and related addendum, Botas (Turkish energy company) reticence notwithstanding. Nasirov said the

real progress occurred starting on May 12, when a Botas delegation arrived in Baku, and later with the arrival of Energy Minister Yildiz as part of the visit of PM Erdogan. In these talks SOCAR found Yildiz "more resolute" than his predecessor in seeking a solution to the bilateral energy problems relating to Shah Deniz Phases One and Two (SD1, SD2).

18. (C) Nasirov said that GOT Energy Minister Yildiz and SOCAR had come to an "oral agreement" that Azerbaijan gas could transit Turkey, and that the producers (the Shah Deniz Consortium) would decide which of the three pipeline project (TAP, Nabucco, TGI) it would support via SD2 gas sales. SOCAR's position was still that it would not decide which of the three it would choose until it compared relative netbacks. There was also progress on SD2 gas sales to Turkey, with the idea being contemplated of sales of four bcm/a to Botas, and four bcm/a to 'other companies' within Turkey.

19. (C) There was also progress on SD1, with the corresponding possibility of arbitration becoming more remote (the next meeting with SD Consortium lawyers in this regard is June 10 in London). Yildiz and SOCAR discussed a scenario whereby the price caps on SD1 gas are lifted, with SD1 prices for April-December 2008 equal to approximately USD 240 per thousand cubic meters, and the 2009 SD1 price being approximately USD 137 per thousand cubic meters (NOTE: since oil and gas prices have fallen in 2009 relative to 2008). No final agreement on SD1 prices has been reached, but an optimistic Nasirov said that this latest Turkish offer for SD1 was "more than double" the existing Botas offer.

Comment: More Positive Reviews

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110. (C) Readouts from the Turkish Embassy, MFA, Presidential Apparatus and SOCAR continue to put a happy face on the May 13-14 Erdogan visit, at least from Azerbaijan's perspective. Azerbaijan's media, largely state controlled, is still running highly favorable accounts of bilateral meetings and their aftermath, emphasizing the contention that borders will not be opened until Armenia withdrawals from the occupied territories. SOCAR's comments are particularly interesting, as Nasirov has been skeptical about -- and frustrated with -- reports of progress on gas pricing and transit in the past. His take on the outcome of the Nabucco Summit in Prague was not favorable. His optimism that progress could be made on the Shah Deniz Phase I pricing dispute as well as SD Phase Two transit is striking, as is his vote of confidence in the new Turkish energy minister.
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